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UNCLAS SECTION 01 OF 02 ANKARA 007051

SIPDIS

STATE FOR E, EB/IFD AND EUR/SE
TREASURY FOR OASIA - MILLS AND LEICHTER
NSC FOR BRYZA AND MC KIBBEN
USDOC FOR 4212/ITA/MAC/OEURA/DDEFALCO

E.O. 12958: N/A
TAGS: ECON EFIN EINV PGOV TU
SUBJECT: PRIVATIZATION UPDATE: UPDATE: ONE STEP FORWARD, TWO STEPS BACK

REF: ANKARA 6165

¶1. (SBU) Summary: The Turkish government has canceled the privatization of Tekel,s tobacco operations, because bids submitted were far lower than expected. Though the cancellation is a blow to the privatization program, the government did accept the high bid for the smaller alcohol side of Tekel. The Tupras tender awaits enactment of legislation that GOT authorities hope will improve the value of the company. The GOT Council of Ministers has approved a privatization plan for Turk Telekom, under which bids will be received by the end of May, 2004. End Summary.

TEKEL

¶2. (U) The Privatization Authority (PA) announced on November 5 that Japan Tobacco (JT) was the high bidder for the Tekel tobacco operations, offering USD 1.15 billion. A consortium led by Turkish company Tutsab was high bidder on Tekel's alcohol division, at USD 292 million. While Tutsab,s bid was in line with expectations, JT,s bid was substantially below the USD 2-3 billion predicted by the market and expected by PA officials (Reftel).

¶3. (SBU) Initially, Finance Minister Unakitan resisted discussion of a possible cancellation, while State Minister Babacan said that the market sets the price and that privatization &has to happen.8 Nevertheless, on November 11 the Privatization Tender Commission canceled the tender. Turkish newspapers report that, prior to deciding to cancel, Ministry of Finance officials met with JT and tried to induce JT to increase its bid.

¶4. (SBU) The cancellation had been presaged by PA President Kilci on November 10, who predicted to Econ Counselor that the tender would be canceled, stating that the GOT did not intend to sell Tekel &below its value.8 Econ Counselor cautioned Kilci to consider carefully the consequences of cancellation, noting that it would raise questions about the GOT's commitment to privatization and cause investors on future tenders to be more hesitant; that if the sale went forward the money could be used to pay off high interest rate debt, thus saving several hundreds of millions of dollars; and that there was no guarantee that a subsequent tender would produce higher bids. Kilci was, however, unmoved. He hinted that the bids had been corrupted by collusion, noting that, in the second round of bidding on Tekel the participants did not increase their bids, while typically in the second round bids are 2 to 3 times higher than in the first round. Kilci also said that alternate strategies available to GOT included selling the company in pieces, or holding it until market conditions improved.

¶5. (U) The Turkish stock market fell sharply (5.3 percent) on November 6. Market analysts report that the disappointing Tekel bid was a major factor in the sell-off, along with the European Union Progress Report,s mention of the need to solve the Cyprus problem. On November 12, the market rallied despite the news of the tender cancellation, having already anticipated that event.

¶6. (U) Turkish press reports indicate that Philip Morris (PM) did not bid on Tekel. They claim that, because of PM,s market dominance (Reftel), the PA had asked PM to commit to divest some of Tekel,s cigarette brands. When PM was unable to find buyers for those brands, it withdrew from the

competition. The Financial Times reports that an advisor to one of the bidders said that companies took into account the unfriendly investment environment, unstable regulatory authorities, and the quote immoral unquote bureaucracy in Turkey.

¶7. (SBU) Before the bids were announced, Competition Authority (CA) officials told Emboff that no matter which bidder won, the CA would have market dominance issues and would likely require some divestment. One investment banker also told Emboff that the GOT will embark on a major anti-smoking campaign.

TUPRAS

¶8. (SBU) Although the Tupras bids remain sealed, press reports claim that only two companies bid on Tupras: Tataristan National Petroleum Company (TatarNeft) and a joint venture between Cukurova Holdings and a Kazakh oil company. While Kilci expressed optimism to Econ Counselor that the sale would proceed, he also noted that no final decision on the bids will be made until the new Petroleum Market Law (Ref) nears enactment. According to Kilci, the Petroleum Law is designed to make Tupras more attractive, thereby increasing the PA,s leverage on the bidders, or leading to a new round of bidding. Kilci said the situation should be resolved within the next couple of weeks.

PETKIM

¶9. (U) Petkim bids are due November 18. However, Kilci advised Econ Counselor that the bid deadline would probably be postponed until after the Tupras sale was approved, since the identity of the new owner of Tupras was important to Petkim bidders.

TELEKOM

¶10. (U) On November 11, Communication Ministry Binali Yildirim announced that the cabinet had agreed upon an IMF-backed privatization plan for Turk Telekom, under which bids for the block sale of at least 51% are to be made by the end of May, 2004. According to Yildirim, foreign investors will be permitted to purchase the entire block, and if the block sale is successful, a public offering of the remaining shares will be made. Five percent of the shares will be reserved for employees, and a golden share for GOT. Yildirim further said that the Transportation Ministry, the Treasury and the PA had formed a special commission to determine the value of Telekom. Local press reports state that, as a result of the Tekel debacle, the government will establish a floor for bids. An unidentified senior Telekom official reportedly has claimed that the company is worth USD 4 billion, and that Telecom Italia and Singapore Telecom are the most serious rivals for the sale.

COMMENT

¶11. (SBU) Comment: The Tekel cancellation is a blow to the privatization program. PA staff and many local observers had hoped that the Tekel and Tupras privatizations would demonstrate that the GOT was serious about privatization. The two deals were also expected to generate substantial revenues for the State. Instead, the disappointing results suggest the PA may not have a good feel for the market. Moreover, the Tekel cancellation and Tupras delay will further reinforce market doubts about the GOT,s commitment to privatization and could become an issue in negotiations with the IFI,s. While the Telekom announcement is a bit of good news, approval of a plan --particularly one required by the IMF program -- is far easier than actual divestment of state enterprises. End Comment.
EDELMAN